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Central Intelligence Bulletin

CONTENTS

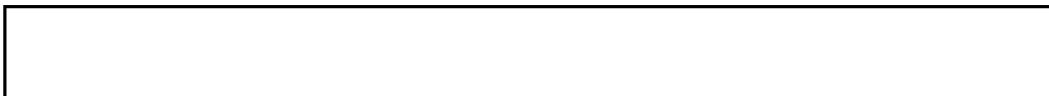
BRAZIL: The 200-mile territorial sea claim. (Page 1)

VENEZUELA: Pessimism in US business community.
(Page 2)

USSR-SYRIA-EGYPT: Deliveries of fighter aircraft
and helicopters. (Page 3)

EUROPEAN COMMUNITIES: Measures to forestall foreign
exchange crises. (Page 4)

25X1



25X1

USSR-UN: Document on peacekeeping (Page 6)

JAPAN: Industrial production (Page 6)

SECRET

SECRET

BRAZIL: The government, although refusing to back off from its 200-mile territorial sea claim, apparently has decided upon a relatively restrained approach on the issue.

The progovernment political party reportedly has been asked by the President to downplay the 200-mile question. Press coverage also abated somewhat last week, probably another indication of the government's wish to avoid inflaming the issue.

The Brazilians have exercised restraint since the law went into effect on 1 June, and fishing boats have been warned out of the area rather than taken into custody. Government officials have indicated that they intend to apply the law for the first time against a boat operating within 12 miles of the coast in the belief that exclusive fishing rights in the zone are more generally recognized by other countries. Some harassment of foreign fishing craft has been reported; although the possibility of an incident remains, Brazil seems more intent on implementing its claim through diplomacy. Exploratory talks with France and Trinidad-Tobago, whose flag vessels fish the area, have already been held. Brazil presumably will press for a fisheries agreement that will at least imply recognition of its claim.

Brazil probably views the territorial seas issue as one facet in its quest for leadership in Latin America and among less developed countries generally. On the territorial seas question, Brazil apparently believes that it can forge and lead a united bloc of third world countries at the 1973 Law of the Seas Conference, and thereby enhance its own prestige.

25X1

3 Jul 71

Central Intelligence Bulletin

1

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VENEZUELA: Many US businessmen are gloomy about prospects for future investments.

At a meeting of the American Chamber of Commerce on 1 July, one member said that a recent survey of 20 US companies showed no disposition to invest further in Venezuela at this time.

Much of the pessimism results from the inability of the businessmen to persuade Venezuelan legislators to modify certain bills now before the congress. One of these reserves to the government the development of the natural gas industry and may involve expropriation without "just compensation" to the oil companies. Another apparently would require foreign petroleum companies to set aside ten percent of their depreciation allowances each year to insure that when the companies begin terminating their concessions in 1983 their assets will be turned over to Venezuela in good condition. Both bills are expected to be passed quickly and with little modification.

The new mood of nationalism in Venezuela that has resulted in the proposed legislation probably will discourage new foreign investment by making business more difficult and less profitable. It has by no means stopped it yet, however. US Steel recently decided to move ahead with a \$40-million expansion of its iron mining and processing facilities. In addition, Japanese firms are actively seeking investment in aluminum and steel, and members of the Chamber of Commerce believe that Venezuela will find investment capital to develop natural gas exports.

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USSR-SYRIA-EGYPT: Moscow has increased its deliveries of fighter aircraft and helicopters to Syria and has maintained the flow of these aircraft to Egypt.

Syria has received five SU-7 fighter-bombers, 21 MIG-21 interceptors, nine MIG-17s and 22 MI-8 helicopters since April, probably under an arms agreement signed in February. Some of the MIG-21s may be intended as replacements for older models, while the relatively large number of helicopters may presage the development of a heliborne capability.

The recent arrival of eight MIG-21s in Egypt brings to almost 100 the number of these aircraft received since September 1970. By contrast, the Egyptian Air Force received only 90 MIG-21s between mid-1967 and mid-1970 and those were largely to replace combat losses suffered during the June War. In addition, the arrival of 16 MI-8 helicopters during June brings the number received since early 1970 to almost 80.

At least some of the fighter aircraft probably are intended to bring the Egyptian MIG-21 squadrons up to full strength. The additional helicopters probably are intended to bolster Egypt's heliborne capabilities first evident during 1970, and at least some therefore are likely to be armed.

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3 Jul 71

Central Intelligence Bulletin

3

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SECRET

EUROPEAN COMMUNITIES: The EC finance ministers have made notable progress toward agreement on measures designed to forestall future foreign exchange crises, but a definitive West German commitment to end the float of the mark has not been made.

The greater flexibility demonstrated by both the Germans and the French to move toward a common position vis-a-vis the US dollar is historically significant. The Germans indicated an unprecedented willingness to implement stiff control measures to curb short-term capital inflows when necessary. This would be contingent, however, upon the formal adoption of a plan by the EC countries to permit their currencies to fluctuate in unison against the dollar within a substantially wider band than now allowed by the International Monetary Fund (IMF). For their part, the French have conceded that some greater flexibility against the dollar might be useful in conjunction with other short-term capital controls but insisted that the Germans must set a date for restoring a fixed parity for the mark before the French will agree to a wider-band pact.

The entire agreement package now revolves around Bonn's plans to terminate the float of the mark, a decision the Germans want to postpone. Although discussions bogged down on this point at Brussels, Bonn and Paris should be able to work out their differences in the near future. If a new agreement is reached, it would serve as the basis for a proposal for widening the exchange rate bands between EC currencies and the dollar at the annual IMF meeting at Washington in September.

Adoption of this proposal would require closer cooperation among EC central banks, and may bring about some reduction in the use of dollars in intra-EC transactions. Moreover, it would reduce the impact of interest rate differentials on capital flows between the US and Europe and would tend to discourage the massive speculative movements that occurred prior to the currency crisis in early May.

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3 Jul 71

Central Intelligence Bulletin

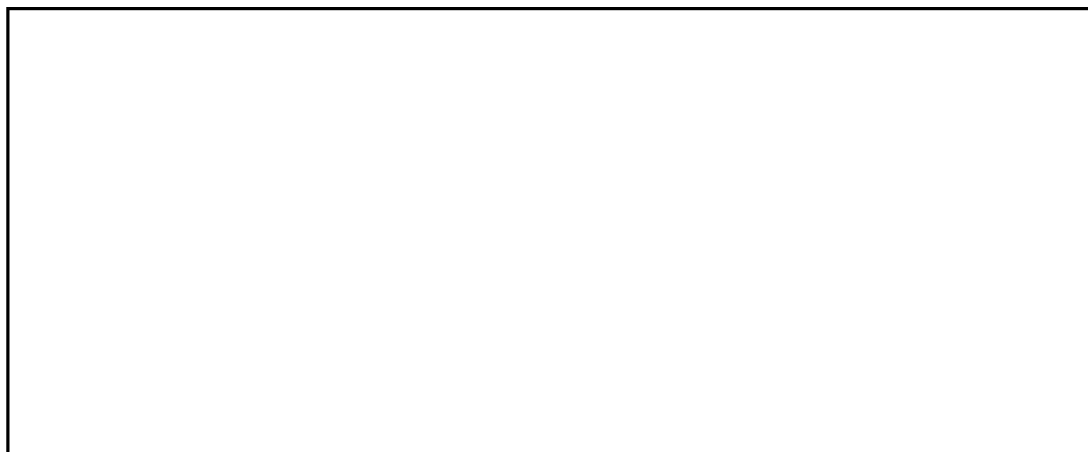
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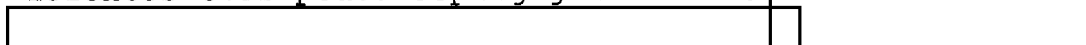
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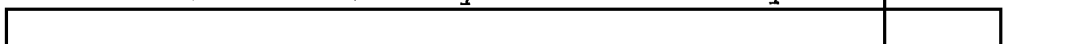
USSR-UN: A Soviet document on UN peacekeeping guidelines, which was given to the US Mission at the UN on 23 June, marks no compromise in the USSR's position. The document reiterates Moscow's traditional attitude that a peacekeeping mission must be completely under the aegis of the Security Council, subject to veto by the permanent members. It also states that the Secretary General's actions would be confined to "auxiliary functions of administrative nature." It is not clear whether or not the Soviets regard the text as a formal response to the 1970 US proposals designed to resolve US-Soviet differences over peacekeeping guidelines.

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JAPAN: Industrial production declined 4.5 percent in May from the previous month, marking the largest monthly drop in a decade. Tokyo is concerned that sluggish domestic demand might spur manufacturers to step up exports, thus undercutting the government's current campaign to slow down export growth. This concern is illustrated by the fact that despite a significant decline in automobile and television production, exports of both items have increased dramatically thus far this year.

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